County of Erie

MARK C. POLONCARZ
COMPTROLLER

December 27, 2007

Erie County Legislature
92 Franklin Street
Buffalo, New York 14202

Hon. Joel A. Giambra
95 Franklin Street
Buffalo, New York 14202

Re: Erie County General Obligation Borrowing
IMMEDIATE CONSIDERATION REQUESTED

Dear Honorable Legislators and County Executive Giambra:

As you are aware, for some time now Erie County (the "County") and the Erie County Fiscal Stability Authority (the "Authority") have been locked in a stalemate regarding which party should issue debt to finance the 2007 capital program for the County. This stalemate, in which the Authority rejected my efforts to arrange a borrowing by the County and the Legislature rejected the County Executive's request to allow the Authority to borrow on behalf of the County, has resulted in serious negative ramifications to the County and third parties.

As a result of these issues, intense negotiations were held by the undersigned, members of the Authority and Governor Eliot Spitzer's office to resolve this impasse. I am pleased to announce that a compromise has been reached which resolves these issues through the use of a mirror bond issuance.

In a mirror bond issuance, the Authority will issue its sales tax revenue bond debt on behalf of the County and on the same day the County will sell general obligation mirror bond debt in the same amount to the Authority. Under the compromise reached by the parties, when the County receives two (2) ratings in the "A" category from nationally recognized ratings agencies (either an "A-" or "A3" rating depending on the rating agency – Moody's, Fitch and/or Standard & Poor's) the Authority's bonds will be defeased (taken out and extinguished) and the Authority's bondholders will receive the County's bonds in exchange. The bondholders then would no longer own Authority bonds, but County bonds. This mechanism ensures that the Authority cannot perpetuate its existence if the County continues its ongoing financial recovery.

Additionally, based on analysis performed by the Governor's office, this mechanism should provide for some financial savings due to reduced bond insurance costs, savings which continue even when the Authority's bonds are extinguished and replaced with the County's bonds. Also, because the costs associated with my previously chosen underwriter, Citigroup Global Markets, Inc. ("Citigroup"), are less expensive than the Authority's previously chosen underwriter, Roosevelt & Cross, the Authority has agreed to utilize Citigroup as the Senior Managing Underwriter to sell its bonds to the general public, thereby ensuring greater savings to County taxpayers.

Due to the immediate capital construction needs of the County and our office's inability to cash advance for capital projects until this matter is resolved, we respectfully request that the County Executive make a formal declaration of financial need and that Legislature approve the County Executive's request as soon as possible, which request would authorize the Authority to issue its sales tax revenue bonds on behalf of the County in an amount not to exceed $51,930,000 and the County to issue general obligation Mirror Bonds to the Authority in an equal amount under the terms of a certain Term Sheet agreed to by my office and the Authority, a copy of which is annexed and attached hereto as Exhibit "A."

As always, if you should have any questions on this matter please contact my office at your earliest convenience. Thank you in advance for your immediate consideration of our request.

Sincerely yours,

Mark C. Poloncarz

Mark C. Poloncarz, Esq.
Erie County Comptroller

MCP/sa
Encl.

cc: Hon. Eliot Spitzer
Hon. Thomas P. DiNapoli
Erie County Fiscal Stability Authority
James M. Hartman, Director of Budget, Management and Finance
Christopher C. Collins, County Executive - Elect
George M. Zimmerman, Esq., Acting County Attorney
C. Todd Miles, Esq., Hawkins Delafield & Wood LLP
Steven J. Kantor, First Southwest Co.
Lora K. Lefebvre, Dep. Sec. for Public Finance and Local Gov.

<u>Exhibit A</u>

Erie County Fiscal Stability Authority/Erie County Mirror Bonds
Series 2008 A
Term Sheet

Authority:	Erie County Fiscal Stability Authority
Authority Bonds:	Series 2008 A Bonds
County:	County of Erie, New York
Mirror Bonds:	General Obligation Bonds issued by the County with substantially the same coupons, prices and/or yields, payment dates and maturities as the Authority Bonds. The Mirror Bonds will be purchased by the Authority with proceeds from the public sale of the Authority's Bonds. The Mirror Bonds will be held as assets of the Authority (but not pledged to the repayment of the Authority's Bonds) unless a Benchmark Event occurs. As described below, upon the occurrence of a Benchmark Event, the owners of interests in the Authority Bonds shall be required to exchange their ownership interests in Authority Bonds for ownership interests in the Mirror Bonds, and the Authority Bonds will be defeased and no longer outstanding.
Bond Trustee:	To Come
Bond Insurer:	A nationally recognized bond insurer, including, but not limited to, FSA, MBIA, Ambac, etc.
Bond Insurer Commitment:	Bond Insurer will agree to issue a policy to insure (i) the Authority Bonds until maturity or retirement and (ii) the Mirror Bonds if a Benchmark Event occurs within the Benchmark Event Period. No additional cost will be incurred if the insurance transfers from the Authority Bonds to the Mirror Bonds. The original premium will assume such flexibility.
Rating Agencies:	Moody's, Fitch, and Standard & Poors ("S&P") and their successors and assigns or, if one (1) or more of the above are no longer in business or rating municipal entities, any other then nationally recognized rating agency approved by the Bond Insurer.
Benchmark Event:	Receipt by the County of notice that two (2) Rating Agencies have rated the County in the A category (such category to include any rating in the A category including, but not limited to, a rating of "A3" or "A-"). Upon receipt of such notice the County will notify the Bond Trustee and Bond Insurer in writing that the Bond Trustee and DTC must commence the mandatory exchange process by owners of interests in the Authority Bonds for interests in the Mirror Bonds
Benchmark Event Period:	From the date of issuance of Authority bonds to February 1,

	2028.
Benchmark Event Notice:	If a Benchmark Event occurs within the Benchmark Event Period, the County will give notice to the Trustee and Bond Insurer within five (5) business days.
Benchmark Event Exchange:	Within ninety (90) days of receipt of the Benchmark Event Notice, the Bond Trustee will effectuate an automatic, mandatory and pre-consented to exchange of ownership interests in Authority Bonds for ownership interests in Mirror Bonds through the DTC Book-entry System. Upon acquisition of all outstanding Authority Bonds by the Trustee as a result of a Benchmark Event Exchange, the Authority Bonds shall be defeased.
Expiration of Benchmark Event Period	No exchange will be made in the event a Benchmark Event does not occur during the Benchmark Event Period.
Sources of Payment of the Authority Bonds:	The Authority Bonds will be paid from moneys of the Authority. The Authority will use Sales Tax revenues of the County to make its debt service payments, after providing for operating expenses of the Authority.
Payment of Debt Service of the Mirror Bonds prior to the Benchmark Event:	Debt service payments made by the County's paying agent will be deposited with the Bond Trustee no less than three (3) days prior to the debt service payment dates on the Authority Bonds. If on any date that the Authority receives Sales Tax Revenues there is on deposit with the Bond Trustee an amount sufficient to pay in full the debt service payments due on the next payment date of the Authority Bonds, the Authority will not deposit any such Sales Tax Revenues with the Bond Trustee but shall immediately pay them over to the County.
Entering into of financing agreements between the County and Authority:	Pursuant to New York Public Authorities Law § 3961, prior to the closing of the Authority Bonds and Mirror Bonds transactions, the County and the Authority shall enter into any and all agreements necessary to effectuate the closing of said transactions.